

Green Banking Disclosure and Financial Performance: Role of Corporate Governance as Moderating Variable

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Abstract. *This study intends to examine the positive impact of green banking disclosure on financial performance and the role of corporate governance in strengthening this relationship. The sample consists of BUKU IV banks listed on the Indonesia Stock Exchange from 2019–2024, using moderated regression analysis (MRA). The results show that green banking disclosure positively impact market financial performance (Tobin's Q), with corporate governance strengthening the relationship. However, green banking disclosure does not influence operational performance (ROA and ROE), and corporate governance does not moderate this relationship. Overall, green banking disclosure, supported by good corporate governance, enhances market value and global competitiveness, especially for BUKU IV banks.*

Keywords: *Green Banking Disclosure, Financial Performance, Corporate Governance*

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INTRODUCTION

The adoption of the Paris Agreement on the United Nations Framework Convention on Climate Change became a momentum for 55 countries in committing to contribute to reduce global warming to not exceed the threshold of 1.5 degrees Celsius from before the industrial revolution (Rhodes, 2016). Indonesia is one of the countries committed to the 2015 Paris Agreement. Based on the book Long-Term Strategy for Low Carbon and Climate Resilience 2050 published by OJK in 2021, currently Indonesia's financial strategy is at an early stage of development in climate change mitigation and adaptation which focuses on optimizing the financial climate system by diversifying financial sources, strengthening financial institutions, and encouraging stakeholder capacity.

The government's seriousness in dealing with environmental issues is continued by the issuance of Presidential Regulation (Perpres) Number 98 of 2021 concerning the Implementation of Carbon Economic Value for Achieving Nationally Determined Contribution Targets and Controlling Greenhouse Gas Emissions in National Development. Furthermore, through Bank Indonesia Press Release No.23/273/DKom in 2021, it is stated that the issue of sustainability finance is one of the issues in the six priority issues in finance at the Indonesian G20 Presidency which focuses on developing financing sources to address climate change and the risks of transitioning to a low-carbon economy. This statement support Indonesia's commitment in the Paris Agreement to reduce global warming.

The description illustrates the situation of a global financial industry that increasingly prioritizes green disclosure and sustainable development, as indicated by the United Nation Principles for Responsible Investment and the United Nation Sustainable Development Goals, with great interest from investors, regulators, and managers with the main focus of the business

remaining to improve financial performance (Khan et al., 2021). Green banking activities include the development of environmentally friendly banking products and environmental-based risk management associated with long-term economic benefits and enhancing banking reputation (Tia, et al., 2023). Green banking disclosure is intended to provide information related to banking sustainability business activities to all stakeholders. It is expected that the activities and disclosures of green banking can add value to investors and increase profitability from the efficient use of banking operational costs through the implementation of Reduce, Reuse, and Recycle (3R).

The existence of green banking disclosures provides information to stakeholders to assess green banking activities carried out by banks (Rahma and Wedari, 2024). Moreover, green banking disclosures can reduce asymmetry between managers and shareholders over banking activities as described in agency theory. However, in addition to disclosure, a low-cost mechanism is needed because it does not need to use external parties but through corporate governance mechanisms. In recent periods, corporate governance mechanisms have become the main mechanism in improving company performance (Alabdullah, et al., 2022).

Research Objectives

The objective of the study is to examine the positive impact of green banking disclosure on financial performance and the role of corporate governance in strengthening the positive impact of green banking disclosure on financial performance.

Research Gap

Researches regarding green banking disclosures on financial performance as described earlier, has been found quite a lot, especially in China, Bangladesh, Indonesia and the European Union (Sa and Dao, 2024). However, researchers found inconsistencies in research results between green banking disclosures on financial performance both moderated and not moderated by corporate governance using various measurements. Therefore, this study will investigate the impact of green banking disclosure measured by index developed by Bose, et al. (2018) on financial performance measured using market-based performance (Tobin's Q) and operational-based performance (Return on Asset-ROA and Return on Equity-ROE), moderated by banking governance mechanisms measured by GIB.X62 index formulated by El-Abiad, et al. (2023) to capture more comprehensive governance mechanisms as BASEL implementation in BUKU IV banks.

Theoretical Background

Stakeholder theory by Freeman (2010) and legitimacy theory by Dowling dan Pfeffer (1975) highlight the importance of companies or banks to carry out disclosure of their business activities which can be used as decision making as a form of ethical business implementation. Mahajan, et al. (2023) re-explains that companies need to recognize and consider stakeholders, understand and manage the needs, desires, and demands of stakeholders and make decisions more than the focus of shareholders, so that companies can be strategic, create maximum value, and maintain long-term success and sustainability. According to this theory, all decisions to be made need to consider all company stakeholders, both internal and external.

Meanwhile, legitimacy theory also emphasizes that the sustainability of the company lies in market forces and social expectations, and because the community is not an internal part of the company, the community obtains information from reports published by the company regarding the company's compliance with the norms and values prevailing in society (Moloi, 2020). Both stakeholder and legitimacy theory suggest disclosing financial, social and environmental information such as CSR and sustainability reports as an important part of the dialog between companies and stakeholders (Gulluscio, 2023).

Besides those theories, agency theory by Jensen & Meckling (1976) is also related to this study. This theory describes the relationship between principals and agents, where managers as

principals can have more information than shareholders and can use this information in their interests (Moloi, 2020). One way to reduce this information asymmetry is by disclosing banking activities that can be used by shareholders and the public to make decisions in the company's financial statements. In the financial industry, especially banking in Indonesia, the government has made various regulations that can improve the quality of banking reports, such as Financial Services Authority Regulation Number 12/POJK.03/2019 concerning Commercial Bank Reporting Through the Financial Services Authority Reporting System. In addition, to improve the credibility of disclosures in banking reports, an impactful governance mechanism is needed. In the book Long-Term Strategy for Low Carbon and Climate Resilience (LTS-LCCR) 2050 published by OJK in 2021, it is stated that governance aspects also need attention as part of sustainable and responsible activities to fulfill one of the economic, environmental and social aspects.

LITERATURE REVIEW

Previous research has examined the impact of green banking disclosures on financial performance in various countries. Adil, et al. (2024) analyzed the impact of green banking techniques as determined by index and activity items related to employees, daily operations, customers and policies on financial performance determined by ROA and Tobin's Q. The results indicated the green banking index had a positive impact on ROA and Tobin's Q.

Gutiérrez-Ponce and Wibowo (2023) examined the impact of the level of information on ESG activities and each ESG pillar (environmental activities (ENVI), social activities (SOC) and governance activities (GOV)) as measured using the Thomson Reuters Index on the financial performance of 19 banks in Southeast Asia as determined by ROA, ROE and Tobin's Q. The study found that ESG had a negative impact on ROA, ROE and Tobin's Q; ENVI had a positive impact on ROA but no impact on ROE and Tobin's Q; SOC had a negative impact on Tobin's Q, but no impact on ROA and ROE, while GOV had a negative impact on ROE and Tobin's Q but no impact on ROA. Akhter et al. (2021) examined the impact of green banking policy guideline and green banking practices on the financial performance determined by ROA, ROE and ROI in Bangladesh. The study found that green banking had a positive impact on financial performance.

In Indonesia, research in green banking disclosure on financial performance focused on single metric only, either operational-based performance such as ROA and ROE or market-based performance. In operational-based performance, Tia, et al. (2023) investigated the impact of green banking disclosure on financial performance determined by ROA and the result showed that green banking disclosure has a positive impact on ROA. Whereas Dewi (2023) investigated the impact of green banking determined by index (GDBI) on financial performance also determined by ROA and environmental performance with the results showed that green banking has positive impact on environmental performance but has no impact on financial performance. In market-based performance, Fatmayanti and Waskito (2024) found that green banking has a positive impact on financial performance determined by Tobin's Q.

In ASEAN level, including Indonesia, Malaysia, Singapore, Philippines and Thailand as the sampel, Rahma and Wedari (2024) examined the impact of green banking disclosure determined by index and green credit as determined by the green credit ratio on financial performance determined by Return on Equity (ROE). The results showed that green banking disclosure has a positive impact on ROE, while green credit has a negative impact on ROE.

In addition, several previous studies have also tested corporate governance on financial performance and tested corporate governance in moderating green banking on financial performance. Ikram and Akhtar's (2021) research examines the impact of green banking as measured using 38 disclosure indicators based on the Central Bank of Pakistan's policy on financial performance as determined by Tobin's Q moderated by corporate governance as determined by board size, independent board of directors, institutional ownership and the number of female directors. The results showed that green banking disclosure had no impact on

financial performance and institutional ownership had a negative impact on financial performance.

In Indonesia, Allie and Sudibijo (2024) tested green banking as determined by dichotomy against financial performance as determined by net interest income (NIM) moderated by corporate governance as measured by managerial ownership showing that green banking moderated by corporate governance can increase net profit. In addition, Setyoko and Wijayanti (2022) also tested green banking using 16 indicators of green banking reporting on banking financial performance as measured by ROA moderated by corporate governance as measured by foreign ownership, board of commissioners, and audit committee. The results showed that green banking has a positive impact on financial performance, but corporate governance does not moderate the impact of green banking on corporate governance.

Green Banking Disclosure and Financial Performance

Disclosure of green banking activities by banks can improve financial performance, both market performance and operational performance. According to Murwaningsari & Rachmawati (2023), in line with legitimacy theory, stakeholders respond positively to green banking disclosures because banks disclose non-financial information such as environmental aspects and it shows the credibility of banking information. Previous research has examined the impact of green banking disclosures on financial performance and the study found that green banking disclosures positively impact financial performance (Adil et al., 2024; Akhter et al., 2021; Fatmayanti & Waskito, 2024). Based on this explanation, the researcher suspects that the higher the Green Banking Disclosure index, the higher the financial performance. Thus, the following is the first hypothesis in this study:

H1: Green banking disclosure has a positive impact on financial performance

H1a: Green Banking Disclosure has a positive impact on Tobin's Q

H1b: Green banking disclosure has a positive impact on ROA

H1c: Green banking disclosure has a positive impact on ROE

Corporate Governance in moderating Green Banking Disclosure on Financial Performance

To align business processes with the profit outcomes, the implementation of good corporate governance mechanism is important. Implementation of good corporate governance improves clear, transparent, and professional work performance that can attract new investors (Allie & Sudibijo, 2024). By implementing this mechanism, banks are expected to improve the credibility and transparency of banks in reporting and disclosing their business activities. Allie and Sudibijo (2024) and Setyoko & Wijayanti (2022) examined the impact of green banking on financial performance moderated by corporate governance. Their study suggested that green banking moderated by corporate governance has a positive impact on financial performance. In line with this explanation, the second hypothesis in this study is as follows:

H2: Corporate governance strengthens the positive impact of green banking disclosure on financial performance.

H2a: Corporate governance strengthens the positive impact of green banking disclosure on Tobin's Q

H2b: Corporate governance strengthens the positive impact of green banking disclosures on ROA

H2c: Corporate governance strengthens the positive impact of green banking disclosures on ROE

METHODS

This research is a quantitative study that will test the hypothesis, namely the impact of green banking disclosures on bank performance with corporate governance as moderating variable of BUKU IV Banks that listed in Indonesia Stock Exchange for the period 2019 - 2023. BUKU IV banks are banks with the largest amount of core capital, which is more than Rp 30 trillion

in the banking industry. The population in this study are all banks listed on the Indonesia Stock Exchange and this study uses purposive sampling with the criteria as follows: banks are included in the BUKU IV Bank category at the end of 2023 that are publicly listed on the Indonesia Stock Exchange for the period 2019 - 2023, publish reports annually, and have information related to all variables. This study used panel data, combining cross-section and time-series data from BUKU IV bank in the period 2019-2023 obtained from the annual banking report published on the website <https://www.idx.co.id>.

This study incorporates several variables to examine their relationships within the research framework. The dependent variables include Tobin's Q, Return on Assets (ROA), and Return on Equity (ROE), which represent different dimensions of financial performance. Tobin's Q, a market-based measure of financial performance, is calculated by dividing the sum of the market value of equity and book value of liabilities by the book value of total assets. This method aligns with Murwaningsari & Rachmawati's (2023) research on green banking and green investment.

ROA, an operational-based measure of financial performance that evaluates banks' profitability determined by dividing net income after tax by the average total assets, while ROE an operational-based measure of financial performance that evaluates profitability from shareholders' perspective, measured by the ratio of net income after tax to the average total equity, both of ROA and ROE aligns with Gutiérrez-Ponce & Wibowo (2024). The independent variable in this study is Green Banking Disclosure, that is environmentally friendly focused banking activities, measured by Green Banking Disclosure Index (GBDI), aligns with Bose et al. (2018). Corporate governance is moderating variable in this study, measured by Corporate GIB.X62 index developed by El-Abiad et al. (2023) that reflects the governance implementation in banking sector in a whole mechanism. To eliminate bias, this study used bank size measured by natural logarithm of total assets (Bose et al., 2018) and Capital Adequacy Ratio (CAR) which represents bank's capitalization measured by the ratio of equity to total assets, aligns with Partovi & Matousek (2019).

Data processing in this study used moderation regression analysis using the Eviews Program. Hypothesis testing is done with the t test with the following research model:

$$Q_{it} = \alpha_{it} + \beta_1 GBDI_{it} + \beta_2 SIZE_{it} + \beta_3 CAR_{it} + \varepsilon_{it}$$

$$ROA_{it} = \alpha_{it} + \beta_1 GBDI_{it} + \beta_2 SIZE_{it} + \beta_3 CAR_{it} + \varepsilon_{it}$$

$$ROE_{it} = \alpha_{it} + \beta_1 GBDI_{it} + \beta_2 SIZE_{it} + \beta_3 CAR_{it} + \varepsilon_{it}$$

$$Q_{it} = \alpha_{it} + \beta_{it} GBDI * CG_{it} + \beta_2 SIZE_{it} + \beta_3 CAR_{it} + \varepsilon_{it}$$

$$ROA_{it} = \alpha_{it} + \beta_1 GBDI * CG_{it} + \beta_2 SIZE_{it} + \beta_3 CAR_{it} + \varepsilon_{it}$$

$$ROE_{it} = \alpha_{it} + \beta_1 GBDI * CG_{it} + \beta_2 SIZE_{it} + \beta_3 CAR_{it} + \varepsilon_{it}$$

Description:

Q = Financial performance as measured by Tobin's Q

ROA = Financial performance as measured by return on asset ratio

ROE = Financial performance as measured by the ratio of return on equity

GBDI = Green banking Disclosure Index

CG = Corporate governance

Size = Banking size

CAR = Capital Adequacy Ratio (Bank capital adequacy ratio)

RESULTS AND DISCUSSION

Research Result

Linear Regression

Table 1. Linear Regression with Dependent Variable Tobin's Q

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-------------------------|-------------|--------------------|-------------|----------|
| C | 2.479771 | 0.127451 | 19.45665 | 0.0000 |
| GBDI | 0.000595 | 0.000157 | 3.787325 | 0.0004 |
| SIZE | -0.045001 | 0.003766 | -11.94780 | 0.0000 |
| CAR | -0.923187 | 0.118335 | -7.801489 | 0.0000 |
| Weighted Statistics | | | | |
| R-squared | 0.860559 | Mean dependent var | | 5.735968 |
| Adjusted R ² | 0.851465 | S.D. dependent var | | 15.45634 |
| S.E. of regression | 0.910345 | Sum squared resid | | 38.12152 |
| F-statistic | 94.62932 | Durbin-Watson stat | | 1.934256 |
| Prob(F-statistic) | 0.000000 | | | |

Source: Eviews (2024)

The results showed a significance of 0.0004 < 0.05 with a regression coefficient of 0.000595 which indicates that H_{1a} is accepted that green banking disclosure positively impact financial performance determined by Tobin's q. Based on the test results, the Adjusted R-squared of 0.851465 or 85.1465% shows that the financial performance determined by Tobin's Q can be explained by the independent variables, while the rest is due to other factors not captured in the model.

Table 2. Linear Regression with Dependent Variable ROA

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-------------------------|-------------|--------------------|-------------|----------|
| C | 0.020092 | 0.01975 | 1.017324 | 0.3143 |
| GBDI | 1.59E-05 | 2.85E-05 | 0.558433 | 0.5793 |
| SIZE | -0.000293 | 0.000573 | -0.510963 | 0.6118 |
| CAR | 0.028899 | 0.025879 | 1.116715 | 0.2699 |
| Weighted Statistics | | | | |
| R-squared | 0.036739 | Mean dependent var | | 1.378431 |
| Adjusted R ² | -0.026082 | S.D. dependent var | | 1.84438 |
| S.E. of regression | 0.992246 | Sum squared resid | | 45.28937 |
| F-statistic | 0.584825 | Durbin-Watson stat | | 1.761702 |
| Prob(F-statistic) | 0.628004 | | | |

Source: Eviews (2024)

Green banking disclosure does not significantly impact on ROA, having probability value of 0.5793 > 0.05 and a regression coefficient of 1.59E-05. This indicates that H_{1b} cannot be accepted. That is, an increase in green banking disclosure has no impact on bank profitability as measured by ROA in this study.

Table 3. Linear Regression with Dependent Variable ROE

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---------------------|-------------|------------|-------------|--------|
| C | 0.193712 | 0.117395 | 1.650089 | 0.1057 |
| GBDI | 0.000196 | 0.00017 | 1.155145 | 0.254 |
| SIZE | -0.00217 | 0.003428 | -0.633224 | 0.5297 |
| CAR | -0.203956 | 0.135771 | -1.502203 | 0.1399 |
| Weighted Statistics | | | | |

| | | | |
|--------------------|----------|--------------------|----------|
| R-squared | 0.084386 | Mean dependent var | 1.235888 |
| Adjusted R2 | 0.024672 | S.D. dependent var | 1.817441 |
| S.E. of regression | 1.01578 | Sum squared resid | 47.4632 |
| F-statistic | 1.413165 | Durbin-Watson stat | 1.854628 |
| Prob(F-statistic) | 0.250999 | | |

Source: Eviews (2024)

Green banking disclosure also does not significantly impact on ROE, with a probability value of $0.254 > 0.05$ and a regression coefficient of 0.000196. This indicates that H_{1c} is also unacceptable. Thus, green banking disclosure does not directly contribute to profitability as measured by bank shareholder investment (ROE).

Moderated Regression

Table 4. Moderated Regression with Dependent Variable Q

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---------------------|-------------|--------------------|-------------|--------|
| C | 2.481473 | 0.128878 | 19.25436 | 0.0000 |
| GBDI*CG | 3.43E-05 | 9.34E-06 | 3.674450 | 0.0006 |
| SIZE | -0.045041 | 0.003813 | -11.81218 | 0.0000 |
| CAR | -0.920103 | 0.116557 | -7.894020 | 0.0000 |
| Weighted Statistics | | | | |
| R-squared | 0.859341 | Mean dependent var | 5.697136 | |
| Adjusted R2 | 0.850168 | S.D. dependent var | 15.22061 | |
| S.E. of regression | 0.907527 | Sum squared resid | 37.88587 | |
| F-statistic | 93.67749 | Durbin-Watson stat | 1.942738 | |
| Prob(F-statistic) | 0.000000 | | | |

Source: Eviews (2024)

Green banking disclosure and corporate governance has a significant impact on Tobin's Q, having probability value of $0.0006 < 0.05$ and a regression coefficient of 3.43E-05. The Adjusted R-squared value of 0.850168 or 85.0168% indicates that green banking disclosure can explain variations in financial performance determined by Tobin's Q, while the rest is due to other factors not captured in the model.

Table 5. Moderated Regression with Dependent Variable ROA

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---------------------|-------------|--------------------|-------------|--------|
| C | 0.020494 | 0.019796 | 1.035245 | 0.3060 |
| GBDI*CG | 8.39E-07 | 1.67E-06 | 0.501366 | 0.6185 |
| SIZE | -0.000301 | 0.000574 | -0.524886 | 0.6022 |
| CAR | 0.028721 | 0.025909 | 1.108561 | 0.2734 |
| Weighted Statistics | | | | |
| R-squared | 0.035709 | Mean dependent var | 1.369776 | |
| Adjusted R2 | -0.027180 | S.D. dependent var | 1.842792 | |
| S.E. of regression | 0.991318 | Sum squared resid | 45.20469 | |
| F-statistic | 0.567814 | Durbin-Watson stat | 1.762566 | |
| Prob(F-statistic) | 0.639021 | | | |

Source: Eviews (2024)

Corporate governance does not significantly strengthen or weaken the relationship of green banking disclosure and ROA, having probability value of $0.6185 > 0.05$ with a regression coefficient of 8.39E-07. This means that the moderating impact of corporate governance on the relationship between green banking disclosure and ROA is not strong enough.

Table 6. Moderated Regression with Dependent Variable ROE

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---------------------|-------------|--------------------|-------------|----------|
| C | 0.195673 | 0.117746 | 1.661827 | 0.1033 |
| GBDI*CG | 1.12E-05 | 9.97E-06 | 1.119738 | 0.2686 |
| SIZE | -0.002208 | 0.003440 | -0.641891 | 0.5241 |
| CAR | -0.205674 | 0.135788 | -1.514671 | 0.1367 |
| Weighted Statistics | | | | |
| R-squared | 0.083668 | Mean dependent var | | 1.228693 |
| Adjusted R2 | 0.023907 | S.D. dependent var | | 1.812403 |
| S.E. of regression | 1.015735 | Sum squared resid | | 47.45900 |
| F-statistic | 1.400053 | Durbin-Watson stat | | 1.854110 |
| Prob(F-statistic) | 0.254814 | | | |

Source: Eviews (2024)

The moderation of corporate governance can not significantly strengthen or weaken the relationship of green banking disclosure and ROE, having probability value of $0.2686 > 0.05$ with a regression coefficient of $1.12E-05$. This also indicates that moderating impact of corporate governance on the relationship between green banking disclosure and ROE is not strong enough.

Based on the regression results for the BUKU IV banks in Indonesia, green banking disclosure positively affects Tobin's Q, indicating that such disclosures enhance the market perception of the bank's long-term value. Investors appear to recognize the strategic importance of sustainable banking practices, associating them with greater stability and growth potential. These results align with prior research indicating that sustainability initiatives impact market-based measures of value (Adil, et.al., (2024); Ikram and Akhtar (2021); Fatmayanti and Waskito (2024)). However, green banking disclosure does not significantly impact ROA and ROE. This suggests that banks are not focusing on short-term performance but rather on long-term performance.

Corporate governance strengthen the relationship between green banking disclosure and Tobin's Q, means that by implementing good corporate governance, banks can boost market value by reporting and disclosing green banking activities to increase market trust and as a norm form, aligns with stakeholders, legitimacy and agency theory. This result aligns with Ikram and Akhtar (2021) that suggest contribution of corporate governance in increasing banks' market value in SAARC region (India, Pakistan Bangladesh, Nepal and Sri Lanka). This mechanism can not impact the relationship of green banking disclosure on operational-based performance (ROA and ROE) can be caused either by highly cost in implementing green banking activities or their focused not for short-term efficiencies.

CONCLUSION

The outcomes of this research emphasize the role of green banking disclosure and strong corporate governance in shaping market value perception within Indonesia's financial sector, particularly among BUKU IV banks. These elements enhance investor confidence by promoting environmental accountability and governance excellence. While green banking practices and corporate governance do not directly influence profitability, their implementation significantly improves transparency and fosters long-term sustainability. This creates a solid foundation for ethical and responsible banking practices that align with evolving stakeholder expectations. Overall, this study highlight the necessity of integrating green banking practices with good corporate governance to maximize their market value and recognizing that their impacts on profitability may require a longer-term perspective that contributes to a more resilient financial industry in Indonesia, not only strengthens the domestic financial system but also positions the industry to compete impactively on a global scale.

SUGGESTION

This study has several limitations to address and provide insights for future research. First, the differences in regulations regarding corporate governance in Indonesia and other countries may influence the implementation and outcomes of corporate governance practices. Future research should consider developing an index specifically that designed to Indonesia's regulatory context to generate more accurate and contextually relevant insights.

Second, the focus of this study limited on BUKU IV banks in financial sector. Future studies could use another sample of research in other sectors such as paper or mining, by exploring how they can maintain profitability while addressing environmental issues, contributing to a deeper understanding of sustainability practices across diverse sectors.

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